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Investing Across Borders 2010

Indicators of foreign direct investment regulation in 87 economies

Investment Climate Advisory Services, World Bank Group

Global Launch
July 7, 2010
Vienna, Austria

- **Overview**
- Findings
- Implications

Overview and objectives

Overview: *Investing Across Borders* (IAB) is a new World Bank Group initiative presenting indicators on countries' laws, regulations, and practices affecting how foreign companies invest across sectors, start businesses, access industrial land, and arbitrate commercial disputes.

Objectives:

- Respond to information requests for benchmarks on FDI regulations by governments, private sector, development partners and academics.
- Facilitate policy dialogue by identifying good practices and sharing of reform experiences
- Stimulate reforms
- Inform reform advisory work
- Enable research and analysis

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Methodology

- Indicators of laws and regulations (de jure indicators) and their implementation (de facto indicators).
- Focus on 4 policy areas of FDI policy: investing across sectors, starting a foreign business, accessing industrial land, and arbitrating commercial disputes.*
- IAB 2010 data based on a survey of over 2,350 expert respondents in the 87 economies between April and December 2009 (~ 27 respondents per country).
- Respondents include lawyers, accounting and consulting firms, investment promotion institutions, chambers of commerce, and law professors.
- Data on the efficiency of administrative procedures (eg, time to lease land) based on a hypothetical case study to ensure comparability of responses across countries.

* *Investing Across Borders* does not measure all aspects of the business environment that matter to investors. For example, it does not measure security, macroeconomic stability, market size and potential, corruption, skill level, or the quality of infrastructure.

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Country coverage of IAB 2010

87 countries across 7 regions

- Sub-Saharan Africa (SSA – 21 economies):** Angola, Burkina Faso, Cameroon, Côte d'Ivoire, Ethiopia, Ghana, Kenya, Liberia, Madagascar, Mali, Mauritius, Mozambique, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Sudan, Tanzania, Uganda, Zambia
- East Asia and the Pacific (EAP – 10 economies):** Cambodia, China, Indonesia, Malaysia, Philippines, Papua New Guinea, Singapore, Solomon Islands, Thailand, Vietnam
- Eastern Europe and Central Asia (ECA – 20 economies):** Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyzstan, Macedonia, FYR, Moldova, Montenegro, Poland, Romania, Russian Federation, Serbia, Turkey, Ukraine
- Latin America and the Caribbean (LAC – 14 economies):** Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Peru, Venezuela R.B.
- Middle East and North Africa (MNA – 5 economies):** Egypt Arab Rep., Morocco, Saudi Arabia, Tunisia, Yemen Rep.
- South Asia (SAR - 5 economies):** Afghanistan, Bangladesh, India, Pakistan, Sri Lanka
- High-income OECD (12 economies):** Austria, Canada, Czech Rep., France, Greece, Ireland, Japan, Korea Rep., Slovak Rep., Spain, United Kingdom, United States

Selection criteria

- Countries included in the 2007-08 pilot test
- Population size
- Countries in current and expected future portfolio of the Investment Climate department
- Countries with strong reform potential
- Post-conflict economies (corporate priority)
- Key comparator economies

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Resources

Report

- One-page profile of each economy
- Detailed results for each topic, region, and economy



Online database

www.investingacrossborders.org



Pakistan		South Asia	
INDICATORS	2009	2008	2007
INVESTING ACROSS SECTORS			
Foreign direct investment (FDI) - Inward investments (current prices)	100.0	100.0	100.0
Agriculture and forestry	100.0	100.0	100.0
Manufacturing	100.0	100.0	100.0
Services	100.0	100.0	100.0
Construction	100.0	100.0	100.0
Energy	100.0	100.0	100.0
Transportation	100.0	100.0	100.0
Telecommunications	100.0	100.0	100.0
Other	100.0	100.0	100.0
INDICATORS BY SECTOR			
Manufacturing	100.0	100.0	100.0
Services	100.0	100.0	100.0
Construction	100.0	100.0	100.0
Energy	100.0	100.0	100.0
Transportation	100.0	100.0	100.0
Telecommunications	100.0	100.0	100.0
Other	100.0	100.0	100.0

- User-friendly access to thousands of data points, sortable by economy or topic
- International benchmarks
- References to FDI-related laws
- Directory of thousands of leading experts on business and FDI law and regulation

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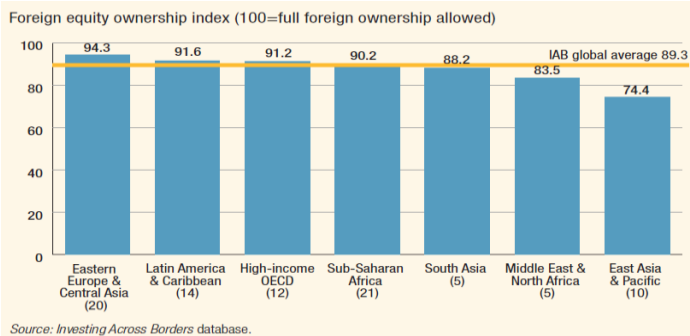


- Overview
- **Findings**
- Implications

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Investing Across Sectors indicators

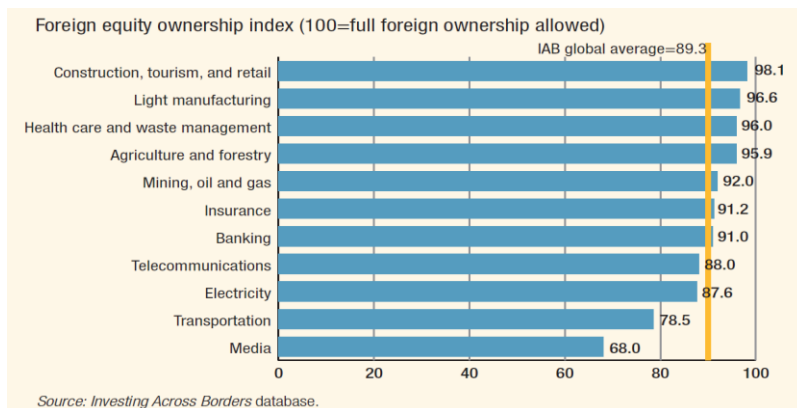


- Countries in Eastern Europe and Central Asia and Latin America and the Caribbean have fewer equity restrictions on FDI ownership than economies in the other regions.
- Countries in East Asia and the Pacific, such as China, Indonesia, and the Philippines, are among the most restrictive in the world.

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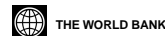


Investing Across Sectors indicators (continued)

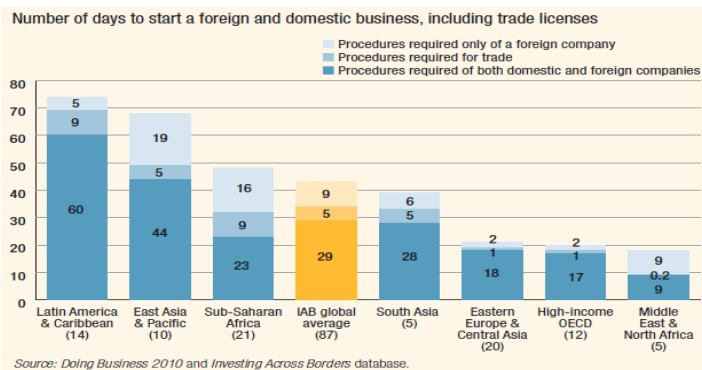


- There are hardly any restrictions on FDI ownership in light manufacturing, construction, tourism and retail.
- In contrast, many economies still restrict FDI in services industries such as media, transport, electricity, and telecommunications.

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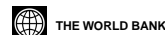


Starting a Foreign Business indicators

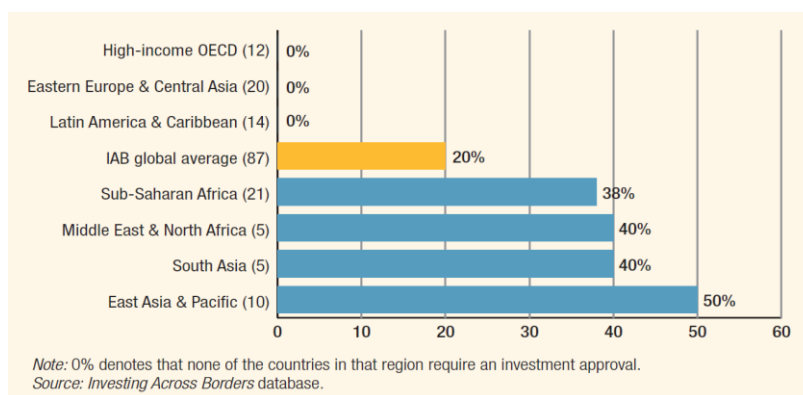


- Starting a foreign company takes, on average, 1.5 times longer and requires more steps than starting a domestic company. In the Middle East and North Africa, and Sub-Saharan Africa, it takes twice as long.
- In high-income OECD and Eastern Europe and Central Asian countries, starting a foreign business takes about 3 weeks. In Latin America and the Caribbean, nearly 3 months.

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Starting a Foreign Business indicators (continued)

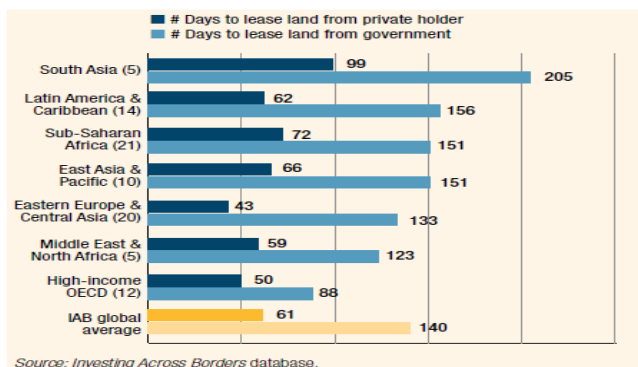


- Many low income economies require that foreign companies obtain a foreign investment approval.
- In some economies, this can take more than a month. In others, only a day.

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Accessing Industrial Land indicators

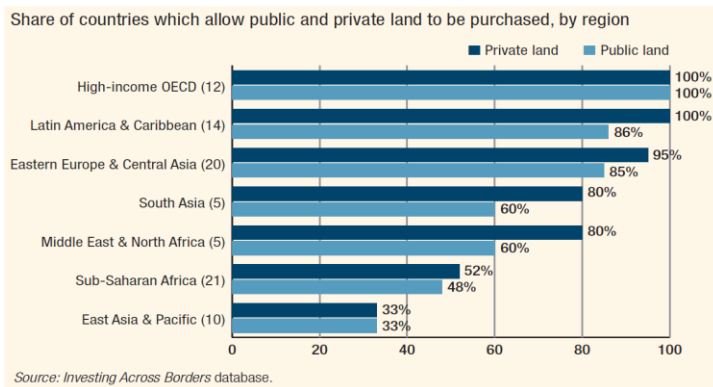


- Average time to lease industrial land from the government is more than double the time required to lease land from a private holder.
- In the Middle East and North Africa and OECD high-income economies leasing industrial land is efficient. In contrast, it can take over a half a year to lease government-owned land in the South Asian economies.

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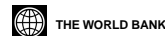


Accessing Industrial Land (continued)

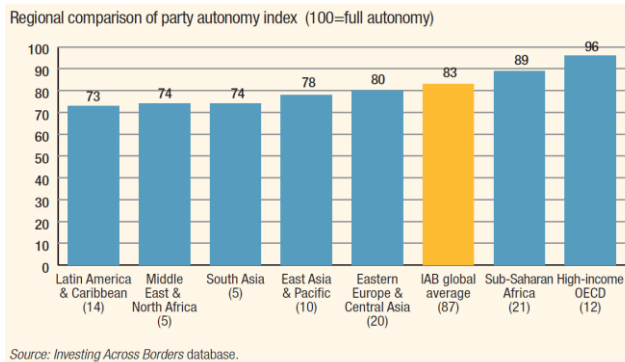


- All 87 economies surveys allow foreign-owned companies to lease land.
- However, most economies in East Asia and the Pacific and Sub-Saharan Africa regions do not allow land ownership by foreign-owned companies.

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Arbitrating Commercial Disputes indicators



- Countries with well developed or modern arbitration laws give parties in dispute greater freedom to choose a flexible and effective arbitration process.
- Some middle income economies restrict party autonomy by requiring that arbitrators speak the local language (Latin America and the Caribbean), or that arbitrators are domestically licensed lawyers (Eastern Europe and Central Asia).

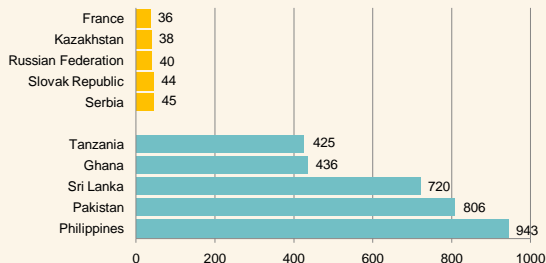
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Arbitrating Commercial Disputes indicators (continued)

Fastest and slowest economies in enforcing arbitration awards

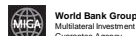
Number of days to enforce an arbitration award in the local courts (selected fastest and slowest economies)



Source: Investing Across Borders database.

- Speed of enforcement varies across countries, from several weeks in some, to several years in others. Many countries in Eastern Europe and Central Asia have adopted special rules to ensure a speedy and uninterrupted enforcement process.

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Most countries have restrictive and obsolete laws and regulations that impede FDI

- **Almost 90%** of countries limit foreign companies' ability to participate in some sectors of their economies, particularly media, transportation, and electricity.
- A **fifth** of the countries surveyed requires foreign companies to go through a foreign investment approval process.
- In international commercial arbitration, **nearly 10%** of countries have not adopted a specific arbitration statute.
- In addition, **1 in 4** measured countries has not ratified the New York Convention, the ICSID Convention, or both.

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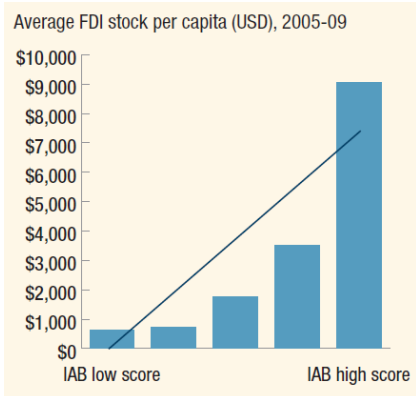
Red tape and poor implementation of laws create further barriers to FDI

- In Angola and Haiti establishing a subsidiary of a foreign company can take **more than 6 months**. In Canada, Georgia, and Rwanda it can be done in **less than a week**.
- Leasing industrial land in Nicaragua and Sierra Leone typically requires **half a year** as opposed to **less than 2 weeks** in Armenia, Republic of Korea, and Sudan.
- In Pakistan, Philippines, and Sri Lanka it can take **more than 2 years** to enforce an arbitration award. In high-income OECD countries such as France and the United Kingdom enforcement can be completed in **less than 2 months**.

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Good FDI regulations and efficient processes help attract and retain FDI



Countries that perform well on the IAB indicators:

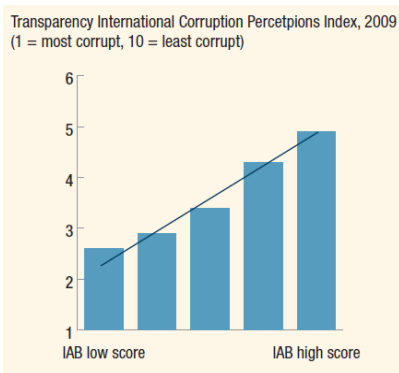
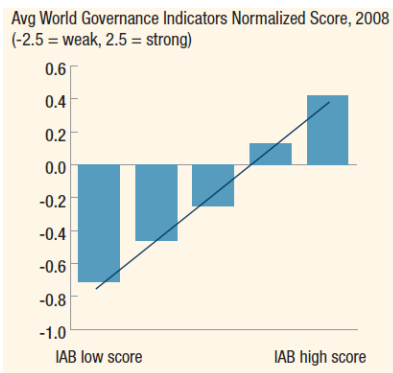
- Tend to attract more FDI (such as Ireland, Singapore, the United Kingdom, or the United States.)*
- Tend to have smaller populations and markets.

* This correlation does not imply existence or direction of a causal relationship. Many other variables such as market size, political stability, infrastructure quality, or level of economic development are likely to better explain the relationship.

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Good FDI regulations and efficient processes create an enabling business environment



- Countries which perform well on the IAB indicators also score well on measures of good governance, institutional quality, political risk, and corruption.

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Countries can improve their FDI competitiveness

IAB indicators are designed to identify **good practices** that offer governments **specific tools for improving** their investment climates in the 4 measured indicator areas:

Investing Across Sectors

- Allowing foreign ownership in the primary, manufacturing, and service sectors.

Accessing Industrial Land

- Clear laws which provide fair and equal treatment for foreign and domestic companies.
- Accessible land information.
- Efficient land acquisition procedures.

Starting a Foreign Business

- Equal treatment of foreign and domestic investors.
- Simple and transparent establishment process.

Arbitrating Commercial Disputes

- Strong arbitration laws in line with arbitration practice.
- Autonomy to tailor arbitration proceedings.
- Supportive local courts.
- Adherence to international conventions.

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More information is available at

www.investingacrossborders.org